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PARTNERSHIP ACCOUNTS

Percy Child, A.C.A.

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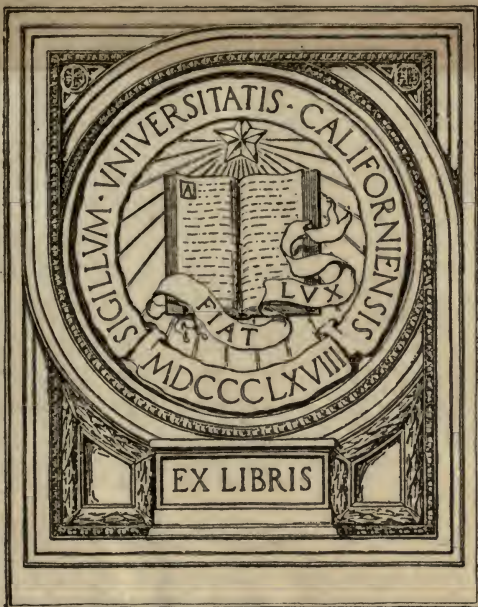
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PARTNERSHIP ACCOUNTS

BY

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PREFACE TO FOURTH EDITION.

THIS edition of "Partnership Accounts" contains several fresh illustrations of account work on this subject, and the whole book is brought entirely up to date. The decision in the case of "Garner v. Murray" is also referred to.

PERCY CHILD

PARTNERSHIP ACCOUNTS.

ALL partnerships are formed by agreement, whether by parol or deed. The difficulty in the first case is to arrive at the terms agreed upon, as the evidence is often of a distinctly contradictory nature ; and in the second to construe the often very involved clauses drawn.

These difficulties must be overcome, and it is absolutely necessary to arrive at given facts before our duties can be performed. In the event of a parol agreement, it is advisable to attend a meeting held by the persons interested, and to take notes of matters as they are gradually consented to. Of course, I am aware that this is not always possible, and that sometimes our notes have to be taken after this meeting has been held ; then it becomes necessary to extract from all sides their various views of matters which affect the drawing or closing of any of their accounts. These views must be reconciled, and an actual statement of the same should be drawn up for our future guidance. So it will be all through this partnership—we may always expect to find ourselves called upon to enquire into some matter which happens, from its peculiar nature, to be a fresh incident for agreement. No one could therefore advise a partnership to be formed upon this basis, if basis it may be called. A curious case is the following : A verbal equal partnership had existed between two persons for some time. It was proved to be equal, inasmuch as they had shared profits equally during the term of partnership. But a dissolution took place, and some of the assets realised sums considerably above the values standing in

the books. A., the senior partner, appropriated all these profits, and paid B. such an amount as covered his capital without the addition of such share of profit. Nevertheless, B. was entitled to participate, and would, no doubt, have done so, but that he allowed the Statute of Limitations to bar his way. The following case has also its droll side. X., Y., and Z. enter into partnership, verbally agreeing that they shall share profits equally. They appoint some person as manager of the business, they themselves dividing the profits—after payment of all expenses—equally, as arranged. Things ultimately do not go as well as expected, and the creditors (mortgagees) foreclose. The ordinary creditors are not very long after them with their respective claims, and X., Y., and Z. find themselves in bankruptcy. They immediately set up a claim, too, under the impression (?) that they are loan creditors, and not partners. No agreement was drawn up, in fact. This would, indeed, be a means of insuring against loss had it been allowed.

In a third instance of these difficulties C. and D. were in partnership by parol. At first they shared all expenses and profits equally; but after a course of years it was found necessary to introduce fresh capital, and C. did this. The proportion of capitals was now, approximately, C. two-thirds, and D. one-third of the whole. It was contended by C. that the original verbal agreement provided that if such or other proportion was arrived at during the partnership, the shares of profit were to be altered in like manner. D. declared that no such clause had ever been agreed to (verbally) by him, and as there was no document to produce in evidence, both—or either—sides might have been partly or wholly right or wrong. It was arranged to submit the matter to arbitration, the result of which was to be final. To my mind the arbitrator judged wisely in deciding that the share of profits

was to remain as before. It had, however, such an effect upon the hitherto pleasant relationship of C. and D., that they soon after mutually arranged to determine their partnership.

But the result of having a deed of partnership is, as a rule, to determine all such affairs, for, as an example, if it was suggested, as in the above illustration, that the share of profits was to be altered in the event of one of the partners bringing in a further amount of capital, and the deed itself was silent on the matter, then the original shares would still hold good.

I have referred to the complex manner in which these deeds are drawn, and all who have had to peruse them will sympathise with what I say. It absolutely becomes necessary at times to have a consultation with the solicitors, and by putting the view we take of a certain clause in a way which seems clear, to drag the information from them as to whether it is the correct way to read it. Such a difficulty I have found when endeavouring to draft the opening entries. In this case, E. and F. had carried on a partnership for many years, but ultimately F. retired, and G. is invited to take his place. G. being agreeable, it was arranged that he should pay out F. by a premium equal to the aggregate of the two previous years' profits. This sum of money F. was to withdraw from the business.

Here was a pretty puzzle. Did it mean—as, indeed, it struck me first, but which turned out afterwards not to be the method intended—that the “premium” was to be paid to F. for retiring and leaving his place open to G. to step in? Had it meant this I must have regarded G. as coming into the business without capital, it being understood that he was to pay nothing else. More especially was this my idea of the view to take of it, for F. had no capital; and it was my intention to create the following double entries in the books

before closing them for the old partnership. Let it be understood that I was quite aware that he did not wish to participate in this premium in any way. I should have debited "Premium Account" to create my asset, and should have credited F.'s Capital Account. When the money was paid by G. it was my intention to debit Cash and credit "Premium Account." That would have wiped out this latter account, for I hardly see how it could have stood on the books in that name. Moreover, the term "premium" suggests the idea that the money has been sunk by G. for the benefit of coming into the firm. It is, I am aware, the impression which first comes to mind on hearing the word used. One uses it more with the idea that it is a fee paid for some advantage gained, and such fee is hardly expected to stand to the payer's credit, as though, indeed, it were capital introduced.

Section 40 of the Partnership Act would seem to imply the same reading of this term, as it states therein that in the event of a premium having been paid, and where the partnership is dissolved before the expiration of the agreed term, then a proportionate part may become repayable. Logically, therefore, we may take it that the reading is to be as I put it, for why is the fact mentioned at all? It must be for this reason: that the general rule is not to return a premium, provided always that the object has been attained for which it was paid. The Act, in saying that a part may be returned under certain circumstances, assumes very well that this is a contingency, and provides for it. Hence we may assume that if the partnership is continued for a given number of years—namely, that term agreed upon in the articles—no premium is returnable. If this is so, the amount of that premium should never have been credited to the incoming partner's account, as in that case it is returnable as capital. It is clear, in fact, that no premium was paid where we credit

the Capital Account, for the latter is repayable, and the Act well assumes—in saying that some portion may be repayable—that, nevertheless, if the contract is fulfilled it will not be so returned.

As I have intimated, my view of it turned out not to be the one the prospective partners had in mind, and the which was most elaborately set out in the deed. If, as I now suggest, G.'s Capital Account was to be credited with this sum, then what difference did it make to the entries which I have already suggested? Solely that, instead of crediting "Premium Account" with the amount when it was paid (see previous double entries), I must credit G.'s capital, and that "premium" must alter its name to "goodwill." Of course, there is no doubt that we can suit our methods to anything which may be suggested. In the same case there was a further slight complication. The deed told me that the capitals of E. and G. were to be taken as being equal. Now, as I had audited the accounts of E. and F. for some five years, and as I knew very well that E.'s capital was not exactly equal to the amount which G. was bringing in—it was, in fact, about £1,370 more—how was E.'s amount to be reduced to an equal point with G.'s? This, in any case, was not a difficult matter for comprehension, provided always that the deed did not distinctly say that the "goodwill" was to be of such an amount as G.'s capital. I therefore debited E.'s capital—to reduce it—and credited "goodwill"—to reduce that also—with £1,370. Had the deed specified the amount of goodwill to be the actual sum *brought in* by G., and had it also said that E. and G. were to start with equal capitals, then, instead of the entries I have given, I should have debited E. with one-half of the difference—viz., £685—and should have credited G. It is not altogether unusual to find that the deed closes with a "Schedule," which is to be taken as

the basis of figures upon which the partners open their affairs.

And it is necessary to take such full abstracts from the deed as will enable us to draw out all the accounts of the partnership; not only as to the opening of the books, but as to the completion of them right up to the date of the dissolution.

It is, of course, possible to conceive that it may become necessary to draw a fresh deed at some given date, or at least to add memoranda. These would again require our special attention. The matters which may be said to affect us, and those necessarily from this circumstance which will require most care to abstract, are the clauses dealing with—The taking over of all assets and liabilities of the old firm (where there has been one), subject under certain circumstances to a part of such not being adopted by the firm being now formed. The term. The shares. The respective amounts of capital and drawings. Apprentice fees. Interest on capital and advances and withdrawals. Where the “outgoings” clause may vary from the “share” clause. At what date the first “full statement in writing” has to be made and signed. And at what future dates these statements have to be drawn up. (These are what we call the “Balance Sheets.”) The death clause, and consequent drawing and rendering of accounts.

Those clauses which do not so much, if at all, affect us are—Where the business is to be carried on. The just and true clause. *The surety clause. Employment of firm’s assets otherwise than for advantage of the business. The speculating clause. Indemnity against private debts. Engagement and dismissal of servants. Any partner becoming bankrupt, or suffering his body to remain in custody for upwards of — days. The arbitration clause.

THE PARTNERSHIP ACT AND THE DEED.

Section 17 of the Act is very important; the actual reading of it must be done with that portion of the deed which specifies what liabilities of the old firm are to be adopted by the new one. This in itself is not sufficient, as the creditors themselves would have a right to refuse accepting the new firm as their debtors. This is so at least in the majority of cases, and would apply in almost every case, except where the creditor had agreed to accept the firm as his debtor, irrespective of alteration in the members of the firm. Again, where a creditor had taken a part payment from such new firm, it may be well assumed that thereby he accepted that firm as his debtor; but I can well imagine that it might have been impossible for him to have ascertained that any alteration had taken place in the members of the firm, and consequently his acceptance of a portion of his claim from the new firm might not mean, and, in fact, might not be construed as an agreement to accept that firm as his debtor. In converse manner, it might not imply his discharge given to some retiring member, where he had no means of ascertaining that such retirement had taken place. Section 36 hardly gives all we require, but read together with Section 37, it is as complete as the Act can make it. Not only then should the dissolution be gazetted, but notice should be sent to all the old creditors individually; it may *then* be well assumed that any part acceptance of a claim would notify acceptance of the new firm as being the debtor.

Section 20 is important, as it must be read in conjunction with the deed, where the latter specifies what assets the new firm is adopting; and if the deed is signed, sealed, and delivered, then such assets as may be there set out have been so adopted. It would be our duty to show them in the books.

Section 24 is of importance to us only in the event of the deed not setting forth the respective shares of the partners as to capital and profits. It is evident in such case that we must consider such persons as equally entitled, whether a large difference in the capital, according to the books, or not was shown. We can, then, only deal with the figures as the Act directs, and it would be necessary to make an adjusting entry by debiting the partner's Capital Account which showed the greater amount with half the difference—where there were two partners—and by crediting the other person's capital; and in the event of three partners such adjustment would be made in similar manner until all three had equal credits.

Examples: A. and Z. had drawn up a deed of partnership without specifying their respective shares of capital, although they were styled equal partners. In the books A.'s capital stood at £16,000, and Z.'s at nil. It is necessary to debit A. and to credit Z. with £8,000. (2) B., C., and X. entered into partnership in a similar manner. The capitals, according to the books, were B. £5,600, C. £1,000, X. nil. B. must be debited with £3,400, and of this sum C. must be credited with £1,200, and X. with £2,200. I need hardly point out that, although this is very unusual, such cases might arise.

Section 26 would be of importance to us only in the event of the deed not stating the term of the partnership, as we might be called upon at any moment to close the accounts.

Sections 28 to 31 inclusive are of importance, but call for no special mention.

We should be familiar with Sections 32 to 35 inclusive, but we may well take it that we should either have expected some of these events by our abstracts from the deed, or that we should have official information of the happening of the other matters.

The remaining sections of the Act which affect us will be more conveniently treated in a later portion of this work.

OPENING THE BOOKS.

I have already clearly stated that the books cannot be opened unless the deed is before us, or unless we have full particulars of the assets and liabilities, verbally agreed to.

It will be necessary to assume that in each case which I am now about to show I have taken such particulars from the deed, or I have collected the evidence from the partners, which enables me to write up the books.

1.—I. and U. agree to enter into partnership under deed. It is agreed that the following assets—(a) Cash, £57 10s.; (b) Debtors, £546 12s. 6d.; (c) Stock, £398; (d) Furniture, £100, and that the liabilities to creditors, £212 18s. 9d., which stood in my books, be adopted by us. My capital was to be raised to £1,200, inasmuch as I had created a certain amount of goodwill. You were to bring in £500 cash, and we were to share profits in proportion to our capitals, which latter were to bear interest at the rate of 5 per cent. per annum.

These matters having been duly carried out, the following is the Balance Sheet which will be the foundation for the opening of our books:—

BALANCE SHEET OF I. & U.

	£	s	d		£	s	d
I. Capital	1,200	0	0	Cash	557	10	0
U. "	500	0	0	Debtors	546	12	6
Creditors	212	18	9	Stock	398	0	0
				Furniture	100	0	0
				Goodwill	310	16	3
	<u>£1,912</u>	<u>18</u>	<u>9</u>		<u>£1,912</u>	<u>18</u>	<u>9</u>

A Journal entry should be made in the following form, after the Balance Sheet has been drawn, and from that Journal entry the amounts will be posted to the various accounts in the books. I consider this by no means the place to enter into any discussion as to rights or wrongs of making this Journal entry, I think we may well "let it be granted."

Sundries	Dr.		
To Sundries—			
viz., Cash		£557	10 0
Debtors, as per Schedule		546	12 6
Stock		398	0 0
Furniture		100	0 0
Goodwill		310	16 3
Creditors, as per Schedule			£212 18 9
I. Capital Account			1,200 0 0
U. Capital Account			500 0 0
		<u>£1,912 18 9</u>	<u>£1,912 18 9</u>

In future illustrations, I shall consider it unnecessary to show this Journal entry.

2.—B. and W. agree in a similar manner to enter into partnership, where formerly B. alone had carried on the business. The assets standing upon his books were:—(a) Cash, £107; (b) Debtors, £1,087 10s. 5d.; (c) Books, £105; (d) Designs, £300; (e) Paper and Utensils, £35; (f) Work on hand, £864; (g) Finished Goods, £598; (h) Furniture and Fittings, £55; (i) Unexpired Fire Insurances £2; (j) Machinery and Plant, £200. His creditors stood at £143 10s. W. proposed to accept the value of these assets and liabilities, subject to the following alterations, all of which B. ultimately agreed to: (a) Accepted. (b) Agreed, less estimated rate of discount 3 per cent., because the £1,087 10s. 5d. was the gross value of the debts. Now, it is well known that when the debtors pay it will be less a certain discount; this amount is therefore approximated and agreed. See further notes on this subject after B. and W.'s Balance Sheet is drawn. (c) Agreed at £100. (d) Agreed. (e) Agreed. (f) Disputed, but ultimately agreed; although the value taken by B. was double the

actual cost. It was arranged in the deed accordingly that all further work on hand at the close of every financial year should be valued in like manner, so that B. might not obtain the whole benefit (to him) of having so valued it now. (g) To be taken at £500, because the design of certain of the finished goods was rather out of date. (h) Agreed at £50. (i) Agreed. (j) Agreed at £175. The creditors' balances were to be adopted, less 2 per cent. for estimated discounts, which would be allowed by them when paid.

BALANCE SHEET OF B. & W.

	£	s	d		£	s	d
B., Capital Account	3,647	5	4	Cash	107	0	0
Creditors £143 10 0				Debtors £1,087 10 5			
Less Discount .. 2 17 5				Less Discount .. 32 12 6			
	<u>140</u>	<u>12</u>	<u>7</u>		<u>1,054</u>	<u>17</u>	<u>11</u>
				Books	100	0	0
				Designs	300	0	0
				Paper and Utensils	35	0	0
				Work on hand	864	0	0
				Finished Goods	500	0	0
				Furniture and Fittings	50	0	0
				Unexpired Fire Insurances	2	0	0
				Machinery and Plant	175	0	0
	<u>£3,187</u>	<u>17</u>	<u>11</u>		<u>£3,187</u>	<u>17</u>	<u>11</u>

W. was admitted without introducing capital. As a matter of fact, his capital was in his head; and he had a very extensive connection, and even applied to B. to give him a credit to his Capital Account, under the heading of "Goodwill," and except that B. would not agree under all the circumstances of the case to do so, we might again have seen this raised on the books. My idea of "goodwill" is a reputation and connection, with the apparent chance of keeping and perhaps improving it. It is of so doubtful a nature, even in the best cases, that the word "apparent" applies, to my mind, very nicely. With reference to those discounts raised by B. and W. upon the debtors' and creditors' balances, let it be

understood first, that the accounts of the individuals themselves must still be brought forward into the new books at their gross figures (which is, without deducting the discounts). A Reserve for Discounts Account will be opened and credited with £32 12s. 6d., which is equivalent to crediting the respective debtors, but has the better effect of showing the amount without actually doing it, because it would be unwise to credit them until they pay, in case they took advantage of this and delayed their payments beyond the customary time for doing so, when in many cases their discount would be forfeited. With regard to the estimated discounts upon the creditors' balances, that same account may be debited, but if it is objected that no debit of this sort should be put to a "Reserve" Account, then a second account could be opened and debited, under the heading of "Suspense Account for creditors' unearned discounts." The principle of leaving the creditors' balances standing gross on the new books is the same as with the debtors.

Then comes in the all-important question as to whether it is advisable to estimate the rate of discount on either of these matters. I think it is advisable. I still think, though, that the matter should be left open to be cleared as and when the said discounts may be actually given and received. My reason for estimating them first is in order that in our first Balance Sheet we may arrive as nearly as possible at the correct figure to credit the Capital Account (s) with. Notice that, in the Balance Sheet just drawn, B.'s capital would have been £32 12s. 6d. more than it is if the discount had not been reserved. And when interest upon capital is afterwards to be reckoned, this alone is a consideration. But I have said that I think it better to leave the matter open for a finer adjustment; and this can only be done by agreement. The reason is very clear—that if an amount is estimated it can hardly be

expected to turn out ultimately correct. Therefore one party or the other loses in consequence. As a matter of fact, in the case of B. and W. there was no difficulty in ascertaining afterwards what were the exact discounts allowed to those debtors; and they amounted to £34 1s. 8d., and in the case of their creditors to £2 5s. 6d., so that you will readily see that the estimated figures were not exact. However, as they had agreed that these estimated amounts were to be adopted, no alteration could afterwards be made. But in more involved cases than this it would often be impossible to ascertain the exact amounts presently allowed and given. Where, for instance, the debtors and creditors were very heavy indeed, and very numerous, then it is certain that they will not individually pay off at some given date the exact amount owing by them, at our opening Balance Sheet period, less discount. But they will go on buying, and presently settle their account, including the newly bought goods. Now, if this were all, there would not be any great difficulty, inasmuch as it is only reasonable to suppose that if, say, 4 per cent. discount was allowed on this whole account it was also allowed on the portion due, and now paid at our Balance Sheet date. The proportionate amount is therefore easily ascertained. But there comes this further obstacle—these goods having been bought by them, as I have suggested, from the new firm, we find, when they pay, they are allowed 3 per cent. discount on a portion; 4 per cent., perhaps, on another; and 5 per cent. on a third portion. This is because some goods can be sold at a larger discount than others—a most common form. Now, we must distinguish in all the balances as brought together into a Balance Sheet whether they do all, or only some of them, include goods which have been sold at different rates of discounts. I suggest great care in dissecting these discounts for the purpose of arriving at as near a result as possible.

With bad debts expected to be made upon those same debtors' balances, I think certainly the object is better attained by waiting; but, nevertheless, an estimated figure should be taken at first, so as to reduce the capital as nearly as possible to its correct sum, with agreement to adjust afterwards.

It must be understood that in certain (I might almost say many) cases the new firm agrees to collect the old debts, but without any liability should a loss arise upon the realised sums. My third case will illustrate the point.

3.—V. and M. had been in partnership together equally, for many years, and on 1st January 1895 agreed to take O. as an equal partner with them. The new shares are, therefore, one-third to V., M., and O. each. The Balance Sheet as drawn by V. and M. was—

	£	s	d		£	s	d
V., Capital	1,250	0	0	Cash	124	0	0
M., "	937	0	0	Debtors	1,048	0	0
Creditors	106	0	0	Stock	1,121	0	0
	<u>£2,293</u>	<u>0</u>	<u>0</u>		<u>£2,293</u>	<u>0</u>	<u>0</u>

It was arranged that the debtors should be collected by the new firm, and the sums as collected should represent the capitals of V. and M. The cash was to be brought into the new firm, and O. was to introduce a further £1,500. The stock was to be adopted at its value as above.

BALANCE SHEET OF NEW FIRM—V., M. & O.

	£	s	d		£	s	d
V., Capital	726	0	0	Cash	1,624	0	0
M., "	413	0	0	Stock	1,121	0	0
O., "	1,500	0	0				
Creditors	106	0	0				
	<u>£2,745</u>	<u>0</u>	<u>0</u>		<u>£2,745</u>	<u>0</u>	<u>0</u>

As there was no separate arrangement about paying the creditors, they must be brought in and be paid out of the new firm's moneys. The debtors must not be brought in, but as and when they are collected; so the moneys will go equally to the capitals of V. and M. It will be seen that this is so because of the arrangement by the deed; but it would not follow that these sums should always be so treated. Under this agreement any profits or losses arising from the collection will be shared by V. and M. equally. The very important feature of interest on capital here comes in, and the proper method of dealing with it would be to credit V. and M. with the agreed rate, say 5 per cent., from the dates the respective amounts are collected. For this reason alone it is obvious that we should not include the whole sum of the debtors in the first place in their capitals, but should, as I have shown, wait the realisation. In many such instances the creditors would be omitted in like manner, and it is curious that it should not have been so here, for V.'s and M.'s capitals would have been larger by £53 each. I imagine that it was an oversight. Perhaps it was settled that if they were to be paid by V. and M. separately, that a sufficient portion of their own cash (£124) was to be taken out to meet the claims, in which case the capitals would remain, as you now see them; and that it was not considered worth while to do this. But there is one matter of importance which must not be overlooked—namely, that if any discount is afterwards allowed by these creditors, then the new firm is benefited, not V. and M. individually; because the new firm has taken them over. It may be argued that, if other creditors turn up, the new firm would also be liable; but this would not necessarily be so, inasmuch as it is usual to give a schedule of the liabilities taken over, and a new partner would not (necessarily) be responsible for omissions.

To show you how curiously these agreements affect the parties interested, I will suppose that E. had carried on business for some time, and that at a certain date he agrees to take K. as a one-third partner. There were debtors standing on E.'s books at £320. The agreement was that they were to be taken over by the new firm of E. & K., and this was done by bringing them into the new Balance Sheet, and the same was signed by both parties. E., however, gave K. an indemnity against any loss upon collection. First case: They realised only £298. The loss of £22 must be debited direct to E.'s Capital Account. Second case: Those identical debtors realised £345. £16 13s. 4d. must be credited to E.'s capital, and £8 6s. 8d. must be credited to K.'s capital. Again, a certain firm, consisting of A., B., and C., were badly in need of cash, and A. brought into the firm certain property which he valued at £1,050, but without any agreement that the firm adopted that value. The property sells for £900. The loss of £150 is with A. It might be otherwise in this case if the value of £1,050 had been debited to a "Property Account," and credited to A.'s Capital Account, and that in the time between bringing it in and selling it a Balance Sheet had been made and signed by all the partners; then they may be held to have agreed: but that is at the root of it. Did they agree to the value? Now, if they agreed, and the property realises at either a profit or a loss, then such profit or loss is with the firm, and not with A. personally, and the balancing entry must pass through the firm's Profit and Loss Account.

I shall now draw an illustration to show how a Balance Sheet of a firm being constructed on the foundations of an old business should *not* be made.

4.—H. and T. had been in partnership equally for seven years, it terminating, however, on January 1st 1894, by

effluxion of time. They agreed at that date to admit S., who was to bring in £4,000 capital, but who was not to take any share in the assets of the old firm; nor was he to bear any expense—or loss—in setting up the old liabilities. The assets of the old firm consisted of Cash, £120; Debtors, £515; Stock, £376; Machinery and Plant, £400; Horses and Carts, £150; Freehold, £800; Furniture and Fittings, £75; Balance, £12 5s. And the liabilities were—To Sundry Creditors, £105; H., Capital Account, £1,012 5s.; T., Capital Account, £1,331.

BALANCE SHEET of the firm of H., T., S. & Co. (as drawn by them)
1st Jan. 1894.

	£	s	d		£	s	d
H., Capital	1,006	2	6	Cash	4,120	0	0
T., "	1,324	17	6	Debtors.. ..	515	0	0
S., "	4,000	0	0	Stock	376	0	0
Creditors	105	0	0	Machinery and Plant ..	400	0	0
				Horses and Carts ..	150	0	0
				Freehold	800	0	0
				Furniture and Fittings ..	75	0	0
	<u>£6,436</u>	<u>0</u>	<u>0</u>		<u>£6,436</u>	<u>0</u>	<u>0</u>

The balance of £12 5s. on the assets' side of the old firm's Balance Sheet must not be brought forward, as to all intents and purposes it was a loss, and S. was to bear no share of this. If it could have been discovered that it was a genuine asset, it could have stopped, and H. and T. would not have had it equally charged against their capitals. It was extremely unwise to bring into the new firm's Balance Sheet the other assets and the liabilities, as the terms of the deed are thereby contradicted. The only legitimate asset was the £4,000 cash introduced by S., and his capital was the firm's only liability. Considering, however, that the Balance Sheet was drawn and signed as shown above, we must advise that S. should have a further agreement, wherein the old firm agree to sell to the new the assets at above value, and that

the new agree to assume the liabilities ; which brings us back to old rules. It should therefore follow that the Balance Sheet to draw was:—

				£	s	d					£	s	d
S., Capital	..	..	..	4,000	0	0	Cash	..	..	..	4 000	0	0

Now, this shows that S. did not fully realise his position when he agreed to come into the new firm on this understanding. It amounts to this, that because the new firm did not agree to purchase of the old the assets as they stood in the books (see, however, Balance Sheet, as drawn by H., T. & S.) neither one party nor the other would have the right to bring them in subject to the approval of the whole of the members of the new firm. The fact of the Balance Sheet having been signed by them all, however, is sufficient evidence that this was intended ; but S.'s position is an unsatisfactory one, and I should, as I have said, advise a further agreement as to the sale of the assets and taking over of the liabilities. Let it be understood, therefore, that had we drawn the new firm's Balance Sheet, the latter of the two is the only one which could have met with the terms of the deed. As it is, some important features show up. First, it is necessary to show that the debtors should not be brought into the Balance Sheet, and that therefore H. and T.'s capitals would be equally reduced by this sum. As the debts are collected the money should go straight to H. and T. personally, and not into the new firm's Cash Account. As to whether they should increase their capitals by these sums is purely a matter of arrangement, but there is nothing in the present agreement which could compel them to do so. Secondly, if, in collecting these debts, certain concessions were allowed to the debtors, such as extra discounts, for continuing their dealings with the firm, H. and T. must bear all such extra discounts personally, and the new

firm is not chargeable therewith. I do not say that an arrangement might not be made on this score, but it is evident that under ordinary circumstances the new firm could not be charged with the loss which so arises. It might certainly be otherwise where the old partners were not members of the new firm also. But in this case they have acquiesced in an arrangement which benefits them in another manner. Again, the stock is a matter which calls for much comment under the agreement drawn by H., T., and S. There is little doubt that the new firm would be entitled to participate in profits made on selling this stock above the price quoted by the old firm, but to do so they should have first purchased the goods, otherwise it might well be assumed that they sold them on behalf of the old firm. With regard to machinery and plant, horses and carts, and furniture and fittings, if they were used by the new firm, it may happen that it would be decided that H. and T. granted the use of them free, and that therefore all depreciations by wear and tear were their loss, and not the new firm's. The same actually applies to the freehold, supposing it to be the place where the business is being carried on, but if it be a place farther distant, then H. and T. would be entitled to all rents received.

The result of this most clearly shows that it would be unwise in the extreme to enter into partnership upon so unsound a footing; and that most clear terms should be shown as to the method of taking over all assets and liabilities of a firm which has been running in the past. From our point of view we must do only that which the deed tells us to do, and undoubtedly no suggestions as to what was *meant* should weigh.

I can conceive no great difficulty, from the accountant's point of view, in opening affairs for a newly-formed firm where, in fact, no previous business has taken place.

Perhaps the most usual asset then consists of cash, and supposing that A. and P. agree to enter into an equal partnership, A. to bring in £2,000, and P. £1,500, the Balance Sheet would be:—

A., Capital	..	..	..	£	s	d	Cash	..	..	..	..	£	s	d
P., "	..	..	..	2,000	0	0	3,500	0	0					
				1,500	0	0								
				£3,500	0	0						£3,500	0	0

And it must not be assumed that, because their shares are equal, it follows that the capital would necessarily be equal. In the above case, it may so happen that P. is likely to be able to bring much more business than A. Or, again, he may be a better manager. Or it may be that he is to bear the bulk of the work. For any of those reasons alone he may not have been required to introduce so much capital.

But, to take a somewhat more complicated position, I will assume that three persons, X., Y., and Z., agree to enter into partnership, with the respective shares of $\frac{2}{16}$ ths, $\frac{7}{16}$ ths, and $\frac{7}{16}$ ths. X. was to introduce £1,000 in cash, and to fit up the entire offices and works for £400. Y. was to bring in £2,000 in cash, and to introduce a patent which he had just taken out, and the value of which was to be accepted at £850. Z. was to bring in £2,500 cash, and also to advance to the firm, as a loan, repayable over a term of years, bearing interest at the rate of 4 per cent. per annum, the sum of £1,000. The opening Balance Sheet of the firm of X., Y., and Z. is as follows:—

X., Capital	..	..	..	£	s	d	Cash	..	..	..	..	£	s	d
Y., "	..	..	..	1,400	0	0	6,500	0	0					
Z., "	..	..	..	2,850	0	0	Patent	..	..	..	..	850	0	0
Z., " "	..	..	..	2,500	0	0	Furniture, &c...	..	..	..	..	400	0	0
Z., Loan Account	..	..	..	1,000	0	0								
				£7,750	0	0						£7,750	0	0

This is, of course, presuming that all the intended arrangements have been carried out. It is of great importance that Z.'s loan of £1,000 be kept distinct from his capital, more especially in view of a dissolution. Section 44 of the Partnership Act says in its sub-section (b2) That the assets are to be applied in paying . . . to each partner rateably what is due from the firm to him for advances as distinguished from capital. And *afterwards* to pay the amounts due in respect of capital. It is clear here, then, that the Act instructs us to keep the *account* distinct. It must be noticed clearly that the divisions of shares of profits or losses do not, of themselves, affect the drawing of these Balance Sheets. Were it so, and the capitals of the partners had to show in such proportions, having regard to the total assets, then the figures would be very different. It would be indeed more usual to find the assets brought in in a similar way to the one shown here, and that, upon the calculations having been made as shown, the divisions of the profits or losses would be based upon the proportions of each individual amount of capital to the whole capital. It would be useless to argue that, in this event, Z. would suffer if his £1,000 loan were put to a Loan Account and not to capital, because it was never introduced as capital.

Where it is stated in a deed that the division of *profits* is to be in certain shares, and no mention is made of *losses*, then the share of the latter (if any) would be in like proportions to the profits.

It is therefore of the greatest importance that a true knowledge of opening the accounts be had before it is attempted to continue the transactions which may follow; but in all the difficulties which will arise there is always a rule to follow, laid down either by the partnership deed, or where that may be silent on the particular point, there is the

Act to guide us. Points arise in which the accountant differs from the view taken by the solicitor, and whether he (the accountant) be right or wrong he would be wise not to give way until some further opinion be had. We know that when the accounts are drawn in certain cases they do not represent what was intended; but by having followed agreements put before us, and drawn the accounts in response, the fault and error would lie with the persons who had agreed to the terms which did not (ultimately) meet with their approval.

THE PARTNERSHIP TRANSACTIONS.

The various partnerships which, in imagination, we may suppose that we have seen launched, have now to fight their ways as best they may. It is certain that some of them will not respond to the call, and it is with these that I want to deal first.

One of the very earliest signs of a weak business is "shortness" of cash; and where a sum has been put in to start the affair, it may not become noticeable until the whole of this has been drawn by the partners in their usual way of "drawing." This will be a matter of degree, varying upon the fact as to whether the business is just paying its expenses, apart from allowing any margin for "drawings," or whether it is doing less than this. In the latter case the "shortness" of cash will be sooner apparent. All kinds of methods will now be resorted to to bolster up the business. One of the most usual is to raise a "Goodwill," by debiting that account with the agreed value(?), and by crediting the partners in the proportion of their shares of profits. This in itself would be useless were it not for the fact that they will attempt to induce some other person to enter into partnership with them. In doing this, as you will see, their object is to obtain a further supply of cash to

stave off the evil day of bankruptcy. I do not mean to infer that this would always result. They may previously have been working in very bad times, and this further addition may help to set them going for many years to come. The other alternative would be to write up the value of some of their assets already standing on the books. Then they would debit such assets and credit their own accounts in proportion as they shared profits. This, again, in itself does nothing, unless some person enters into partnership with them, when it will be seen that, as their capitals have been increased, should the business do well in future they will not have to make up their capitals to the original sums they themselves brought in, by means of these future profits—*it has been done already*. It is needless to explain the various methods adopted by a failing firm, of keeping their creditors waiting for payment and by lulling their suspicions with small payments when their demands take a more threatening aspect.

I once saw a firm saved from a similar state of things by the most extraordinary chance. It so happened that their loss was arising from having much overstocked their business. But, fortunately, they were fully insured, and, a fire occurring, they were enabled, by production of books and documents, to recover almost in full. The entries in the books after the fire had occurred, and which resulted in complete loss of the stock, were to debit the fire office and to credit a "fire claim." When the claim was paid it became necessary to debit cash and to credit the fire office. This left the "claim" standing as a credit, and rightly so, for it must be remembered that the old stock stood as a debit in the books, and the adjusting entries were now to credit the old Stock Account and to debit the "Claim" Account. This will result in leaving a balance in the Cash Account, and not in any profit; but it saved this firm, putting it in the position of being able to purchase fresh

stock, and which, you may be sure, was done more judiciously than before. It is a fact that their fire policies are fully kept up now.

Another firm, however, suffered heavily by reason of a claim being made against it. In this case the firm had to keep horses, and hired stables for this purpose. Now, it so happened that one night a grating outside their stables was left open, and a man who was said to be the worse for drink was passing, when he slipped in the grating and broke his leg. Contrary to the advice of their solicitors they compromised a claim made by this man's solicitors, and I may say that it seriously affected their year's profits. The entries they made in their books to show this were to credit cash when the claim was paid and to debit the "Claim" Account. This debit had to be written off to Profit and Loss. I think they were in a measure right not to show any entries until the matter was settled; but had a Balance Sheet intervened between the date of the claim being made and settled, then I think their Profit and Loss Account should have shown a debit "Reserve created for Claim £ ," and the Reserve Account should have been credited. When next year they met the claim, they would have debited "Claim Reserve" and credited cash.

The want of cash in a business is often due to the fact that the debtors of the same take too long credit, and therefore the partners are obliged to use every means of getting an advance for the time being. Application is made to the bank, for instance. One partner will bring in money as a loan. Money is borrowed from other persons, the firm giving such security as they are able. It is needless to point out that to give security upon their stock-in-trade, their book debts, and so on, would mean that a bill of sale must be drawn and registered, and this, being extremely detrimental to the prospects of a business, would be carried out only as a last resource. A

private firm, then, generally finds a great difficulty in obtaining an outside advance owing to this fact, and it therefore falls upon the partners themselves to do all they can to bring help. A few illustrations will assist in describing various means adopted.

(1).—D., E., and F. were in partnership equally, and being in want of cash agreed that D. should bring in shares which he held for his private use, at an agreed figure of £1,650. The shares were then put on the market and realised net £1,595. The entries to be made were—when the shares were taken over, debit “Shares Account” and credit D.’s Capital Account with £1,650. When they were sold, debit Cash and credit “Shares Account” with £1,595. Ultimately the difference on the Shares Account of £55 must be credited to that account and debited to Profit and Loss, and each partner will bear his one-third share of loss on the sale.

(2).—The firm of S. and A., being in a similar position, arrange that A. shall bring in shares he held at an agreed figure of £3,750. Their position immediately before that agreement was:—

	£	s	d		£	s	d
S., Capital	1,700	0	0	General Assets	4,709	0	0
A., "	1,200	0	0	Cash	203	0	0
Creditors	2,012	0	0				
	<u>£4,912</u>	<u>0</u>	<u>0</u>		<u>£4,912</u>	<u>0</u>	<u>0</u>

Their proportions of profits were S. five-eighths, and A. three-eighths. They now proceed to sell as follows:—S. went to Paris, the company’s centre, and transferred these shares for some of a more marketable description—viz., 3,500 shares of 20 francs each in the ——— Hotel Cie. These he was speedily able to sell at a net value of $19\frac{1}{2}$ francs each, and as

the exchange at that date was $9\frac{1}{2}$ d. per franc, the firm's London bankers credited them with that price. The travelling expenses and incidentals of S. were £27 0s. 8d., and the amount was paid by the firm. Upon the adjustment of all the accounts, *in connection with this matter*, the firm made a Balance Sheet, and it showed as follows:—

				£	s	d					£	s	d
✓ S., Capital	..	..	?	4,777	16	7	General Assets	..	..	..	4,709	0	0
A., "	..	..	..	796	14	0	Cash	..	..	..	2,877	10	7
Creditors	..	..	..	2,012	0	0							
				<u>£7,586 10 7</u>							<u>£7,586 10 7</u>		

(3).—X. and V. were in equal partnership, and were in the same position as our other firms, as regards want of cash. It was therefore arranged that X., who had privately certain house property, should bring a portion to the firm for sale; this he did, the agreed value of the same being £4,000. The property consisted of a batch of five houses, and the same were put up at auction, and four of the houses were sold at, net, £2,987 10s. The fifth house did not fetch its reserve price of £755, and, therefore, the firm proposed to hold this over, and bring it into their books at the reserve value. The following would be the entries required to show fully the transactions as regards the house property dealings. (X. and V.'s books).

HOUSE PROPERTY ACCOUNT.

				£	s	d					£	s	d
To X., Capital Account	..	..	..	4,000	0	0	By Cash	..	..	..	2,987	10	0
							" Profit and Loss	..	..	..	257	10	0
							" Balance	..	..	..	755	0	0
				<u>£4,000 0 0</u>							<u>£4,000 0 0</u>		
To Balance on this account..	£755	0	0										

PROFIT AND LOSS ACCOUNT.

	£	s	d		£	s	d
To Transfer from House Property Account..	257	10	0	By X. $\frac{1}{2}$	128	15	0
				" V. $\frac{1}{2}$	128	15	0
	<u>£257</u>	<u>10</u>	<u>0</u>		<u>£257</u>	<u>10</u>	<u>0</u>

CASH ACCOUNT.

	£	s	d
To House Property Account (Sale net)	2,987	10	0

X.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
Profit and Loss Account ..	128	15	0	By House Property Account ..	4,000	0	0
Balance	3,871	5	0				
	<u>£4,000</u>	<u>0</u>	<u>0</u>		<u>£4,000</u>	<u>0</u>	<u>0</u>
				By Balance	£3,871	5	0

V.—CAPITAL ACCOUNT.

	£	s	d
To Profit and Loss Account ..	128	15	0

FINAL BALANCES (TRIAL BALANCE).

	£	s	d		£	s	d
To Cash Account	2,987	10	0	By X., Capital Account ..	3,871	5	0
" House Property Account..	755	0	0				
" V., Capital Account ..	128	15	0		<u>£3,871</u>	<u>5</u>	<u>0</u>
	<u>£3,871</u>	<u>5</u>	<u>0</u>				

I do not wish to assume that all other business would cease while these varying transactions are going on; I have merely shown the accounts which have reference to them individually. It seems of importance to mention one point in connection with these dealings—namely, whether it would not be better to show the amount thus first due to the partner

who may bring in this kind of asset, in his "Loan Account," in preference to his "Capital Account." I think not, especially having regard to section 44 (b2) mentioned before. To permit of its being so treated, I think a special note is required, showing that the partners considered, as between themselves, that it was a loan. Where in any such arrangement, therefore, the word "loan" is not distinctly used, I think we should treat it as a further introduction of capital.

It is necessary to notice here, however, what section 24 (3) of the Act says, and I think the subject may be summarised as follows:—Where there is an agreement in the deed to subscribe a certain sum, and moneys are afterwards introduced in the manner just pointed out, then whether the capital bears interest or no, the present advance is entitled to it at the rate of 5 per cent. per annum. But where the original capitals by the deed were entitled to interest, then also the "advance," or further addition of capital, would be so entitled. This section must be read carefully with the word "subject" which is used in it. Thus it may have been arranged that no further sums put into the business, under any circumstances, were to take interest. Or it may have been with the consent only of all the partners.

I have previously mentioned that if, in any of these cases, the figure is not agreed upon by the partners, at which the introduced asset is to be taken, then any loss arising from the sale must be borne by the partner bringing it in. Various circumstances though, as I have said, would alter this rule, but it is strongly advised that a price should be agreed.

Leaving now these extrinsic dealings, and coming to the more natural transactions of a business, I will get you to

refer back to the Balance Sheet which showed the commencement of a partnership between "I. and U.," under the heading of "Opening the Books." (See page 9.)

We carried on business for twelve months from that date, and the following is the Trial Balance of our books at that latter date, and the subsequent adjustment of our accounts:—

	£	s	d		£	s	d
Stock	398	0	0	I., Capital	1,200	0	0
Furniture	100	0	0	U., "	500	0	0
Goodwill	310	16	3	Sales "	1,422	10	3
Purchases	921	10	0	Returns Outward	10	6	0
Cash Balance	220	1	0	Commissions	25	0	0
Returns Inward	29	0	0	Creditors, Open Account	197	0	0
Debtors, Open Account	552	12	0	" for Rent	17	10	0
" on Bills Receivable	80	0	0	" Rates, &c.	4	0	0
Discount Account Balance	34	2	0	" Expenses	32	0	0
General Expenses	205	0	0				
Bad Debts	10	0	0				
I., Drawing Account	347	5	0				
U., "	200	0	0				
	<u>£3,408</u>	<u>6</u>	<u>3</u>		<u>£3,408</u>	<u>6</u>	<u>3</u>

Our closing stock we valued at £250.

TRADING AND PROFIT AND LOSS ACCOUNT.

	£	s	d		£	s	d
To Opening Stock	398	0	0	By Net Sales	1,393	10	3
" Net Purchases	911	4	0	" Closing Stock	250	0	0
" Gross Profit	334	6	3				
	<u>£1,643</u>	<u>10</u>	<u>3</u>		<u>£1,643</u>	<u>10</u>	<u>3</u>
To Discount	34	2	0	By Gross Profit	334	6	3
" General Expenses	205	0	0	" Commissions	25	0	0
" Bad Debts	10	0	0				
" Interest on Capital—I.	60	0	0				
" " " " U.	25	0	0				
" 12-17ths Profits—I.	17	16	0				
" 5-17ths " " U.	7	8	3				
	<u>£359</u>	<u>6</u>	<u>3</u>		<u>£359</u>	<u>6</u>	<u>3</u>

I.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Drawings	347	5	0	By Opening Balance	1,200	0	0
" Balance down	930	11	0	" Interest on same	60	0	0
	<u>£1,277</u>	<u>16</u>	<u>0</u>	" Profit.. .. .	17	16	0
					<u>£1,277</u>	<u>16</u>	<u>0</u>
				By Balance	930	11	0

U.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Drawings	200	0	0	By Opening Balance	500	0	0
" Balance down	332	8	3	" Interest on same	25	0	0
				" Profit	7	8	3
	<u>£532</u>	<u>8</u>	<u>3</u>		<u>£532</u>	<u>8</u>	<u>3</u>
				By Balance	332	8	3

AT END OF 1 YEAR.

BALANCE SHEET.—I. & U.

	£	s	d		£	s	d
I., Capital	930	11	0	Cash	220	1	0
U., "	332	8	3	Debtors	552	12	0
Creditors (for details see Trial Balance)	250	10	0	" (Bills)	80	0	0
				Stock	250	0	0
				Furniture	100	0	0
				Goodwill	310	16	3
	<u>£1,513</u>	<u>9</u>	<u>3</u>		<u>£1,513</u>	<u>9</u>	<u>3</u>

I cannot pretend that we have done all we should to place our accounts on a perfect system. Our debtors stand gross instead of with the discounts taken off, as illustrated fully elsewhere. Depreciation is required from our furniture. And I do not now see that reason for Goodwill which I was so anxious to impress upon you when you joined me in partnership. However, we continued our business for another six months, and during that time our transactions were as follows :—

Gross Sales, £715 10s. 9d.; Purchases, £387 12s. 6d.; Returns Inward, £16 3s.; Payments, including Rent, Rates, and Expenses, outstanding at last Balance Sheet, £550. Besides which we had paid a further sum of £100 for General Expenses, and now we still owed £20 for Rent, Rates, and General Charges. Our Receipts from Debtors had been £825, as well as which we had given them discounts of £19 2s. 7d. Our Bad Debts that half-year were £7 10s. The sum due on

the £80 bills is included in the £825, except one of £22, which has not yet fallen due. That bill was discounted, and we received £21 for it, but that receipt is *not* included in the £825. We had drawn one further bill that half-year, which we hold, as it has not yet matured, for £36. Our present Closing Stock is worth £50. Therefore our Profit and Loss Account and Balance Sheet showed as follows:—

PROFIT AND LOSS ACCOUNT.

	£	s	d		£	s	d
To General Expenses	120	0	0	By Gross Profit	111	15	3
" Discounts	19	2	7	" I., 12-17ths Loss	47	12	1
" " on Bills discounted ..	1	0	0	" U., 5-17ths "	19	16	8
" Bad Debts	7	10	0				
" I., Interest on Capital ..	23	5	3				
" U., " " "	8	6	2				
	<u>£179</u>	<u>4</u>	<u>0</u>		<u>£179</u>	<u>4</u>	<u>0</u>

BALANCE SHEET—I. & U.

	£	s	d		£	s	d
I., Capital	906	4	2	Cash	416	1	0
U.. "	320	17	9	Debtors, Open Accounts ..	422	7	2
Creditors, Open Accounts ..	88	2	6	" " on Bill.. ..	36	0	0
" Expenses, &c.	20	0	0	Stock	50	0	0
				Furniture	100	0	0
				Goodwill	310	16	3
	<u>£1,335</u>	<u>4</u>	<u>5</u>		<u>£1,335</u>	<u>4</u>	<u>5</u>

There are two important partnership features here, besides the actual working of these accounts, which may be found excellent material for practice—namely, (1) Are the partners entitled to interest on capital when the profits are insufficient to pay them? See the Act, section 24 (4). The answer is that they are entitled. That section relates only, as I have already stated, to matters which are not already agreed by the partners, so that that especial matter may be governed by law. I. and U. have already agreed as to our interest on capital, and although there is a loss this half-year, yet, nevertheless, interest on capital has to be considered. (2) As to the division

of profits being in proportion to the capital: would that affect our case, considering that at the end of the first year the proportions of our capitals to the whole were altered? It would not; for unless there be a special note as to such alteration from time to time, the proportions would be governed by the amounts first embarked. Even the actual advance of further sums would not affect the rule, except so far as it may have been provided for in the deed. I do not say that an alteration in the profits would never result from an alteration in the proportions of capitals, but it would have to be provided for, as I say above, in the deed; and without such provision neither partner would be justified in protesting against the original divisions.

We now find things going so badly with us that we propose a consultation with a rival firm, Messrs. O. and E., who, carrying on a similar business to our own, have, together with ourselves, cut down the price of goods so low that business cannot be carried on at a profit. After a lengthened consultation, it is arranged that we shall amalgamate our firms, but that each shall carry on business at our former respective places, and under the same management. The accounts were to be kept both separately and jointly. The division of profits was thus agreed: O., $\frac{1}{3}$ rd; I., $\frac{7}{24}$ ths; U. $\frac{5}{24}$ ths; E. $\frac{1}{6}$ th. Interest on capitals at the rate of 5 per cent. per annum. The joint firm to take over all the present existing assets and liabilities of each firm, subject that in our firm the goodwill was not to be brought forward. The Balance Sheet of O. and E., at the same date as our last one, was as follows:—

BALANCE SHEET OF O. & E.

	£	s	d		£	s	d
O., Capital	1,002	0	0	Cash	520	0	0
E., "	300	0	0	Debtors Open Accounts ..	450	0	0
Creditors, Open Accounts ..	106	0	0	Stock, at Cost	315	0	0
				" on Consignment	75	0	0
				Furniture	48	0	0
	<u>£1,408</u>	<u>0</u>	<u>0</u>		<u>£1,408</u>	<u>0</u>	<u>0</u>

THE BALANCE SHEET of the amalgamated firm of E., I., O. & U.

	£	s	d		£	s	d
E., Capital	300	0	0	Cash	936	1	0
I., "	686	16	2	Debtors, Open Accounts ..	872	7	2
O., "	1,002	0	0	" on Bill	36	0	0
U., "	229	9	6	Stock	365	0	0
Creditors, Open Accounts ..	194	2	6	" on Consignment	75	0	0
" Expenses, &c.	20	0	0	Furniture	148	0	0
	<u>£2,432</u>	<u>8</u>	<u>2</u>		<u>£2,432</u>	<u>8</u>	<u>2</u>

The amalgamated firm worked for a year with the following results. The consignment sold for £147 12s. 6d., but from which was deducted, before we received the draft, commission at the rate of 8 per cent. A second consignment had gone out at cost price £100, and expenses attaching of £8 10s., paid. This was unsold at end of year. Our purchases had been net, £2,987; while our sales, exclusive of consignment, were £5,016, and stock on hand at end of year valued at £298 7s. 6d. The opening debtors' balances were paid in full, less discount £15 7s. 3d. The bills were also duly met, without allowance for discount. All the opening creditors were duly paid, and they allowed us discount of £10. The expenses then due were paid in full. Of our new creditors the amount due to them at the end of the year was £547 13s. 9d., but included in the amount discharged was £39 10s. discount, and acceptances for £123, all of which had fallen due and were paid in full, except one for £23. That one was due in the following year. Of our new debtors, some had taken immediate

advantage of liberal terms of discount offered, and while paying us £3,875 10s., were also credited with discount of £200. There were bad debts, however, of £20. Some of the others had given us acceptances amounting to £150, all of which had fallen due and were met in full. Our general expenses paid were £427, and £34 due, but not yet paid. We decided to reduce our Furniture Account at the rate of 5 per cent. per annum, now and in future, from the original cost. Just at the end of the year we purchased a horse and trap net for £67, from which in future years we decided to write off 7 per cent. per annum depreciation from the cost. We arranged to reserve for discount on outstanding debtors' balances at the rate of 5 per cent., and on creditors' balances at 1 per cent.

TRADING AND PROFIT AND LOSS ACCOUNT.

	£	s	d		£	s	d
To Opening Stock and Con- signment.. ..	440	0	0	By Sales.. ..	5,016	0	0
" Purchases	3,987	0	0	" Closing Stock and Con- signment	398	7	6
" Gross Profit	1,987	7	6				
	<u>£5,414</u>	<u>7</u>	<u>6</u>		<u>£5,414</u>	<u>7</u>	<u>6</u>
To Balance of Discount and Reserve Account ..	198	18	3	By Gross Profit	1,987	7	6
" Bad Debts	20	0	0	" Net Proceeds on first Con- signment.. ..	135	16	4
" General Expenses ..	461	0	0				
" Depreciation, Furniture	7	8	0				
" Interest on Capital, E. ..	15	0	0				
" " " I. ..	34	6	9				
" " " O. ..	50	2	0				
" " " U. ..	11	9	5				
" Share Net Profit, E. ..	220	16	7				
" " " I. ..	386	9	0				
" " " O. ..	441	13	2				
" " " U. ..	276	0	8				
	<u>£2,123</u>	<u>3</u>	<u>10</u>		<u>£2,123</u>	<u>3</u>	<u>10</u>

BALANCE SHEET.

	£	s	d		£	s	d
E., Capital	535	16	7	Cash	2,906	18	6
I., "	1,107	11	11	Debtors (less reserve) ..	731	19	6
O., "	1,493	15	2	Stock	298	7	6
U., "	516	19	7	" on Consignment ..	100	0	0
Creditors (less reserve) ..	542	4	3	" " Expense ..	8	10	0
" Acceptances	23	0	0	Furniture, net	140	12	0
" Expenses	34	0	0	Horse and Trap	67	0	0
	<u>£4,253</u>	<u>7</u>	<u>6</u>		<u>£4,253</u>	<u>7</u>	<u>6</u>

On the 1st January of this next year (1887) our firm admitted A. (see here the Companies Act, 1862, c. 89, s. 4). He was to bring £1,500 in cash, which he did, and was to take $\frac{1}{10}$ th of the net profits after we had all received 5 per cent. interest on capital. That $\frac{1}{10}$ th we four—viz., E., I., O., and U.—were to bear against our shares in the former proportions in which we had taken the whole net profits, and the remainder was to be divided as before. The accounts were to be made out annually, and our drawings were fixed as follows :—A. £250 per annum, E. £200 per annum, I. £300 per annum, O. £400 per annum, and U. £250 per annum. To be drawn only on the 1st January in each year. All except A. to start as and from 1st January 1887, he to commence so drawing on 1st January 1888. So we continued for four years, the former arrangements all holding good equally with those just entered into. At the end of each year we provided for discount on our debtors and creditors at 5 and 1 per cent. respectively. Our BAD DEBTS in the four years were (1) £8, (2) £4 10s., (3) £3, (4) £—. Our NET SALES were (1) £6,752, (2) £7,018, (3) £8,653, (4) £9,810. NET PURCHASES (1) £2,011, (2) £3,210, (3) £4,210, (4) £5,311. Our STOCK at the END of each year was (1) £1,116, (2) £1,422, (3) £984 (not including consignment), (4) £1,653. The CASH RECEIVED FROM DEBTORS was (1) £6,966, (2) £6,875, (3), £7,854, (4) £9,541. And the DISCOUNTS GIVEN THEM were (1) £325, (2) £310, (3) £367, (4) £463. The AMOUNTS PAID TO CREDITORS were (1) £2,422, (2) £3,210, (3) £3,875, (4) £5,045. And the DISCOUNTS THEY GAVE us were (1) £30, (2) £34, (3) £41, (4) £46. The expenses and the acceptance due January 1st 1887 were paid in that year, but no further bills were either drawn or accepted by us. The AMOUNTS OUTSTANDING FOR EXPENSES, due at the end of each year but not paid, were (1) £54, (2) £35, (3) £47, (4) £102. The first three were paid in the subsequent year to which they were incurred. The ACTUAL EXPENSES PAID, apart from those items, were

(1) £764, (2) £987, (3) £1,024, (4) £1,235. The consignment outstanding on January 1st 1887 resulted in a net profit, received in cash in 1887, of £76. No further consignments took place till 1889, in which year we sent out £300 worth of goods, but they remained unsold till 1890, when our agent forwarded us a draft for £435, net sales. However, they cost us £21 at the time we sent them for freight, &c. The first year's accounts are set out in full, and the Balance Sheets of the remaining three years. The material for compiling these is already given, and it will be found excellent practice to draw them up from such material. The dates are omitted, but it will be readily grasped which are the 1st January balances, and which are the 31st December. Moreover, should a difficulty occur in this respect I should consider it an advantage, as forming strong proof that a careful investigation and consequent enquiry would be of value.

DEBTORS' ACCOUNT, 1887.

			£	s	d				£	s	d
To Balance	..	..	770	10	0	By Cash	..	..	6,966	0	0
" Sales	..	..	6,752	0	0	" Discount	..	..	325	0	0
						" Bad Debts	..	..	8	0	0
						" Balance	..	..	223	10	0
			£7,522	10	0				£7,522	10	0
To Balance	..	..	223	10	0						

CREDITORS' ACCOUNT, 1887.

			£	s	d				£	s	d
To Cash	..	..	2,422	0	0	By Balance	..	..	547	13	9
" Discount	..	..	30	0	0	" Purchases	..	..	2,011	0	0
" Balance	..	..	106	13	9						
			£2,558	13	9				£2,558	13	9
						By Balance	..	..	106	13	9

DISCOUNT AND RESERVES ACCOUNT, 1887.

	£	s	d		£	s	d
To Creditors, First Reserve..	5	9	6	By Debtors, First Reserve ..	38	10	6
" Debtors' Discount ..	325	0	0	" Creditors' Discount ..	30	0	0
" " Reserve Balance ..	11	3	6	" " Reserve Balance ..	1	1	4
				" Profit and Loss Transfer ..	272	1	2
	£341	13	0		£341	13	0
To Creditors, Second Reserve ..	1	1	4	By Debtors, Second Reserve ..	11	3	6

CASH ACCOUNT, 1887.

	£	s	d		£	s	d
To Balance	2,906	18	6	By E., Drawing	200	0	0
" A., Capital	1,500	0	0	I., "	300	0	0
" Debtors	6,966	0	0	O., "	400	0	0
" Consignment	76	0	0	U., "	250	0	0
				" Acceptance	23	0	0
				" Expenses (Old)	34	0	0
				" " (New)	764	0	0
				" Creditors	2,422	0	0
				" Balance	7,055	18	6
	£11,448	18	6		£11,448	18	6
To Balance	7,055	18	6				

TRADING ACCOUNT, 1887.

	£	s	d		£	s	d
To Stock and Consignment..	405	17	6	By Sales.. .. .	6,752	0	0
" Purchases	2,011	0	0	" Stock.. .. .	1,116	0	0
" Gross Profit to Profit and Loss	5,450	2	6				
	£7,868	0	0		£7,868	0	0
To Stock (Balance)	1,116	0	0				

PROFIT AND LOSS ACCOUNT, 1887.

	£	s	d		£	s	d
To Bad Debts	8	0	0	By Gross Profit from Trading Account	5,450	2	6
" Discount and Reserve	272	1	2	" Consignment, Net Profit ..	76	0	0
" Expenses	818	0	0				
" Depreciation, Furniture..	7	8	0				
" " Horse and Trap	4	13	10				
" A., Interest on Capital	75	0	0				
E., "	16	15	10				
I., "	40	7	7				
O., "	54	13	9				
U., "	13	6	11				
A. 1-10th Net Profit	421	11	7				
Balance thus;—							
E. 1-6th	632	7	8				
I., 7-24ths	1,106	12	9				
O., 1-3rd	1,264	14	3				
U., 5-24ths	790	9	2				
	£5,526	2	6		£5,526	2	6

A.—CAPITAL ACCOUNT, 1887.

					£	s	d
By Cash ..	..	..	..	..	1,500	0	0
" Interest ..	..	..	..	..	75	0	0
" Profit..	..	..	..	..	421	11	7
By Balance ..	..	..	..	..	£1,996	11	7

E.—CAPITAL ACCOUNT, 1887.

To Cash Drawings ..	..	£	s	d	By Balance ..	..	£	s	d
" Balance down ..	..	200	0	0	" Interest ..	..	535	16	7
		985	0	1	" Profit..	..	16	15	10
							632	7	8
		£1,185	0	1			£1,185	0	1
					By Balance ..	..	985	0	1

I.—CAPITAL ACCOUNT, 1887.

To Cash Drawings ..	..	£	s	d	By Balance ..	..	£	s	d
" Balance down ..	..	300	0	0	" Interest ..	..	1,107	11	11
		1,954	12	3	" Profit ..	..	40	7	7
							1,106	12	9
		£2,254	12	3			£2,254	12	3
					By Balance ..	..	1,954	12	3

O.—CAPITAL ACCOUNT, 1887.

To Cash Drawings ..	..	£	s	d	By Balance ..	..	£	s	d
" Balance down ..	..	400	0	0	" Interest ..	..	1,493	15	2
		2,413	3	2	" Profit..	..	54	13	9
							1,264	14	3
		£2,813	3	2			£2,813	3	2
					By Balance ..	..	2,413	3	2

U.—CAPITAL ACCOUNT, 1887.

To Cash Drawings ..	..	£	s	d	By Balance ..	..	£	s	d
" Balance down ..	..	250	0	0	" Interest ..	..	516	19	7
		1,070	15	8	" Profit..	..	13	6	11
							790	9	2
		£1,320	15	8			£1,320	15	8
					By Balance ..	..	1,070	15	8

BALANCE SHEET, 31st December 1887.

	£	s	d		£	s	d
A., Capital	1,996	11	7	Cash	7,055	18	6
E., "	985	0	1	Debtors (<i>less</i> reserve) ..	212	6	6
I., "	1,954	12	3	Stock	1,116	0	0
O., "	2,413	3	2	Furniture	133	4	0
U., "	1,070	15	8	Horse and Trap	62	6	2
Creditors (<i>less</i> reserve) ..	105	12	5				
" for Expenses ..	54	0	0				
	<u>£8,579</u>	<u>15</u>	<u>2</u>		<u>£8,579</u>	<u>15</u>	<u>2</u>

BALANCE SHEET, 31st December 1888.

	£	s	d		£	s	d
A., Capital	2,079	11	5	Cash	8,279	18	6
E., "	1,192	15	0	Debtors (<i>less</i> reserve) ..	49	8	0
I., "	2,382	4	3	Stock	1,422	0	0
O., "	2,850	16	2	Furniture	125	16	0
U., "	1,322	8	9	Horse and Trap	57	12	4
Creditors (<i>less</i> reserve) ..	71	19	3				
" for Expenses ..	35	0	0				
	<u>£9,934</u>	<u>14</u>	<u>10</u>		<u>£9,934</u>	<u>14</u>	<u>10</u>

BALANCE SHEET, 31st December 1889.

	£	s	d		£	s	d
A., Capital	2,166	7	0	Cash	9,778	18	6
E., "	1,410	6	10	Debtors (<i>less</i> reserve) ..	456	19	0
I., "	2,830	4	8	Stock	984	0	0
O., "	3,309	5	2	" Consignment	300	0	0
U., "	1,585	19	11	" " Expense	21	0	0
Creditors (<i>less</i> reserve) ..	363	0	5	Furniture	118	8	0
" for Expenses ..	47	0	0	Horse and Trap	52	18	6
	<u>£11,712</u>	<u>4</u>	<u>0</u>		<u>£11,712</u>	<u>4</u>	<u>0</u>

BALANCE SHEET, 31st December 1890.

	£	s	d		£	s	d
A., Capital	2,315	8	9	Cash	12,027	18	6
E., "	1,725	15	3	Debtors (<i>less</i> reserve) ..	272	13	0
I., "	3,452	16	7	Stock	1,653	0	0
O., "	3,964	10	8	Furniture	111	0	0
U., "	1,971	8	6	Horse and Trap	48	4	8
Creditors (<i>less</i> reserve) ..	580	16	5				
" for Expenses ..	102	0	0				
	<u>£14,112</u>	<u>16</u>	<u>2</u>		<u>£14,112</u>	<u>16</u>	<u>2</u>

In drawing out these accounts particular care must be exercised in the following matters. The debtors' and creditors'

accounts must be drawn out completely for the year in question before any attempt is made to ascertain the reserves of 5 and 1 per cent. respectively on their closing balances. With regard to that Reserve and Discount Account itself, it will be noticed that I have amalgamated it, and I think to a great extent wisely, as the discounts reserved for in one year are swallowed by those actually allowed and received in the subsequent year. Many accountants prefer to open separate "Reserve Accounts," and I would not pretend to suggest that such a practice is not all that can be desired. I fancy only that the one account keeps the matter more concisely before us. Then, as to the depreciations. You will observe that they are calculated on the cost, and, I think, rightly so with regard to this kind of wasting asset. To give furniture a life of 20 years cannot be said to be too short, in fact it must be good furniture to last so long; repairs, of course, being taken into consideration. The life of the horse and trap, according to our calculations, is, approximately, 14 years, and the horse must have been a young and good one to last so long; to say nothing of the trap. The method of ascertaining the correct amount of interest on capital must be to take off the drawings of 1st January in each year, and to reckon the rate on the balance. It is not at all usual to find partners credited with interest on the full balance and charged with that on the drawings. This would result in the same thing here. But where the drawings take place at any time and in odd sums, then it is easier so to work it. These interests on drawings charged to the debit of the partners go to the credit of Profit and Loss Account.

It must not be thought that, because interest is to be credited on capital, it is therefore to be charged on drawings. The deed must show this clearly. In the accounts just shown, I have deducted the drawings from the capital (which is

equivalent to charging interest on them) only because the dates of January 1st were by choice more convenient than the day before (December 31st). In short, these drawings were from capital on account of *past profits*, and the capital was thereby reduced. But where, by the deed, all the partners are allowed to draw, say, £40 per month, and a charge of interest is not mentioned, then, whether the capital bears interest or no, the drawings are not to be charged with it. They were, in fact, in *anticipation of profits*, which is of a distinct and totally different nature. Of course, at the time for adjusting the capitals, these latter are smaller than they would have been, and interest is dropped from the date of adjustment, but not *necessarily* from date of drawing to that of adjustment.

Y. and O. enter into an agreement that Y. shall supply £2,000 in cash, and that O. shall conduct the business formed, as an equal partner, but to receive £100 per annum salary. Y.'s interest on capital to be at the rate of £5 per cent. per annum, with half-yearly rests. The interest in full to be withdrawn once at the end of each year. O. to have no interests. At the end of the first year they divided between them, as a *net* result of profit, £706. O. withdraws all his salary and profits; Y. lets his profits remain in as *capital*. Show Y.'s Capital Account and O.'s Current Account in full.

At the end of the second year, all the above agreements being continued, they again divided a *net* profit of £543, and, at the same date, realised their assets for £5,042; paying off their creditors of £1,076. Show what each is entitled to withdraw, assuming that *up* to that moment neither had taken any cash that year, either for interest, salary, or profits.

PARTNERSHIP ACCOUNTS.

Y.'s CAPITAL ACCOUNT.

1ST YEAR.

	£	s	d		£	s	d
To Cash, for Interest..	101	5	0	By Cash ..	2,000	0	0
" Balance ..	2,353	0	0	" Interest ..	50	0	0
				" " ..	51	5	0
				" Profit ..	353	0	0
	<u>£2,454</u>	<u>5</u>	<u>0</u>		<u>£2,454</u>	<u>5</u>	<u>0</u>

2ND YEAR.

	£	s	d		£	s	d
To Cash ..	3,169	1	3	By Balance ..	2,353	0	0
				" Interest ..	58	16	6
				" " ..	60	5	11
				" Profit, Trade ..	271	10	0
				" Profit on Sale of Assets..	425	8	10
	<u>£3,169</u>	<u>1</u>	<u>3</u>		<u>£3,169</u>	<u>1</u>	<u>3</u>

O.'s ACCOUNT.

1ST YEAR.

	£	s	d		£	s	d
To Cash ..	453	0	0	By Salary ..	100	0	0
				" Profit ..	353	0	0
	<u>£453</u>	<u>0</u>	<u>0</u>		<u>£453</u>	<u>0</u>	<u>0</u>

2ND YEAR.

	£	s	d		£	s	d
To Cash ..	796	18	9	By Salary ..	100	0	0
				" Profit, Trade ..	271	10	0
				" Profit on Sale of Assets..	425	8	9
	<u>£796</u>	<u>18</u>	<u>9</u>		<u>£796</u>	<u>18</u>	<u>9</u>

DISSOLUTION OF PARTNERSHIPS.

This portion of the subject may be divided as follows :—

1. By compulsion.
2. By effluxion of time.
3. By mutual arrangement.
4. By death.

I propose first to show how the compulsory dissolution may take place.

L. and R. had been in equal partnership together, and drew their Balance Sheet on 31st December 1894 as follows. It is to be understood that the creditors had been pressing them for some time, and the Balance Sheet was drawn chiefly at their instigation.

	£	s	d		£	s	d
L., Capital	38	10	0	Cash	10	7	3
Sundry Creditors	765	12	6	Sundry Debtors	107	4	2
				Stock on hand	342	15	4
				Furniture, &c.	76	0	0
				Machinery and Plant	200	0	0
				R., Deficiency of Capital	67	15	9
	<u>£804</u>	<u>2</u>	<u>6</u>		<u>£804</u>	<u>2</u>	<u>6</u>

The first case, I will assume, is that they were sold up, and the assets realised as follows :—Cash, in full ; debtors, for £82 10s. ; stock, £250 ; furniture, &c., for £25 ; machinery, &c., for £100. And R.'s private estate being also bankrupt, he was unable to bring anything in towards his debt. What composition were they able to make their creditors, taking into consideration that the costs of collecting and distributing the estate were £30 ? L.'s private estate was also in bankruptcy, he being unable to bring in to the firm any further help.

REALISATION ACCOUNT.

	£	s	d		£	s	d
To Value of Assets as per Balance Sheet (exclusive of R.'s deficiency) ..	736	6	9	By Cash Realised (see details in Cash Account) ..	467	17	3
" Costs incurred ..	30	0	0	" Profit and Loss Account ..	298	9	6
	<u>£766</u>	<u>6</u>	<u>9</u>		<u>£766</u>	<u>6</u>	<u>9</u>

PROFIT AND LOSS ACCOUNT.

	£	s	d		£	s	d
To Realisation Account transfer	298	9	6	By Transfer from Creditors ..	327	15	3
" L., $\frac{1}{2}$ Surplus ..	14	12	11				
" R., $\frac{1}{2}$ " ..	14	12	10				
	<u>£327</u>	<u>15</u>	<u>3</u>		<u>£327</u>	<u>15</u>	<u>3</u>

L.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
				By Balance ..	38	10	0
				" Profit and Loss Account ..	14	12	11
				By Balance ..	53	2	11

R.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Balance, deficit ..	67	15	9	By Profit and Loss Account ..	14	12	10
	<u>£67</u>	<u>15</u>	<u>9</u>	" Balance down ..	53	2	11
To Balance ..	53	2	11		<u>£67</u>	<u>15</u>	<u>9</u>

CREDITORS' ACCOUNT.

	£	s	d		£	s	d
To Cash, being a Dividend of 11s. 5½d. approx. in £ ..	437	17	3	By Balance ..	765	12	6
" Profit and Loss Account, Balance transferred ..	327	15	3				
	<u>£765</u>	<u>12</u>	<u>6</u>		<u>£765</u>	<u>12</u>	<u>6</u>

CASH ACCOUNT.

	£	s	d		£	s	d
To Balance	10	7	3	By Costs	30	0	0
" Debtors	82	10	0	" Creditors, 11s. 5½d. approx.			
" Stock	250	0	0	dividend in £	437	17	3
" Furniture, &c... ..	25	0	0				
" Machinery, &c. ..	100	0	0				
	£467	17	3		£467	17	3

The points to consider here are that, because neither L. nor R. are able to bring any further supply of cash, the creditors must be satisfied with the dividend which the firm is enabled to pay. Could either of them have brought any money, they would have been obliged to do so—that is, that their individual separate estates must be first administered. Here, I wish to suppose there was no surplus from the separate estates. You will observe that the only balances left in this bankruptcy are, a debit to R. and a credit to L., of equal amounts of £53 2s. 11d. The one must be written off against the other, and so the accounts will be finally closed. The neatest way of showing the amount of loss which the creditors bear is in the firm's Profit and Loss Account; for it is evident that if the creditors are forced to take a less amount than that owing to them, the difference is a firm's profit, or "benefit" would no doubt express the term better as applied to the period of bankruptcy.

The second case I will take is the same firm, with an identical Balance Sheet; but here assume that before realisation the creditors offered to accept 10s. in the £ provided the assets were forthwith realised. Now, putting aside the fact that the surplus of cash, which will thus show in the firm of L. and R. (for I wish to assume the same realised sums and costs), should legitimately belong to their separate estates, if those separate creditors have not been paid in full, or have not made a similar arrangement to the firm's creditors, I say, then, putting this on one side—for we can well assume that

the separate creditors have been satisfied, for the purpose of illustrating more important features of our partnership—then the working out of the accounts must be similar, up to a point, with those already shown in the previous case; but, where it becomes necessary to pay the creditors, out of cash, then credit that account, and debit the creditors with £382 16s. 3d. Now transfer the balance of the latter account to the Profit and Loss—viz., £382 16s. 3d. Transfer the balance of that latter account to the partners again—viz., £42 3s. 4d. (or 5d.) each. Make a final statement which will show as follows :—

FINAL BALANCE SHEET AFTER COMPOSITION.

L., Capital Account	..	..	£	s	d	Cash in hand	..	..	£	s	d
			80	13	5	R., Deficiency	..	..	55	1	0
			<u>£80</u>	<u>13</u>	<u>5</u>				<u>25</u>	<u>12</u>	<u>5</u>
									<u>£80</u>	<u>13</u>	<u>5</u>

Who is entitled to this cash? L. is entitled; for even after giving it to him, his balance of capital still remains on the right side. The supposition that R. might be entitled to half of the cash, because they were equal partners, is wrong.

**Notes and Illustrations on the Decision of Justice Joyce
in the case of "Garner v. Murray."**

The following points are illustrative of this decision, which arose through the inability of a partner to make good his deficiency of capital. The decision is entirely based upon the view that "a solvent partner is not liable to contribute for an insolvent partner who fails to pay his share."

The method always adopted prior to this decision was, "a solvent partner must bear his share of an insolvent partner's deficiency."

The position at present is as follows :—

Assume that three partners have been working a business, and that one of the three partners has (after a length of time) a debit balance to his Capital Account, which will be further augmented by a loss (if any) upon a realisation of assets, and accept a Balance Sheet drawn after such charge has been made as follows:—

	£	s	d		£	s	d
A., Capital	600	0	0	Cash	480	0	0
B., "	100	0	0	C., Deficiency of Capital ..	220	0	0
	<u>£700</u>	<u>0</u>	<u>0</u>		<u>£700</u>	<u>0</u>	<u>0</u>

Before realisation the assets stood at £630, and as they realised £480, and as A., B., and C. are to be taken as having been equal partners, the loss of each thereon was £50. C.'s deficiency of capital before charging up his share was therefore £170. If C. could produce his £220 he must do so, but where he is unable to do this, the following method of closing the accounts must be followed:—

A. and B.'s contributions of £50 each as their shares of the losses must be brought in, and the available assets will then be Cash £480, plus Contributions £100: total £580.

That sum of £580 will be apportioned to A. and B., as the respective capitals of each over the total capital are to the available funds. Thus A. will take 65/80ths of £580, and B. 15/80ths of £580, but as they have each had to "contribute" £50, the actual disposition of the Cash Account will be as under:—

CASH ACCOUNT.

	£	s	d		£	s	d
Amount received upon realisation of Assets	480	0	0	Amount paid to A.	421	5	0
	<u>£480</u>	<u>0</u>	<u>0</u>	" " B.	58	15	0
					<u>£480</u>	<u>0</u>	<u>0</u>

The key to the above working will be discovered when it is (a) remembered that A.'s capital before being charged with his share of loss on realisation was £650, and B.'s £150, (b) acknowledged that the total capital was then £800. And again, that A.'s and B.'s contributions to the available funds would produce a divisible total of £580 (viz., cash £480, plus A. £50, plus B. £50). And lastly, that as these contributions cannot be reckoned in the disposal of the £480, the divisions must be as shown above.

(2) and (3). Dissolution by Effluxion of Time and by Mutual Arrangement.

In either or both of these cases there might be a realisation of the assets and payment of debts, in which event the rules I have previously given will follow. But often enough one of the partners agrees to take over the entire business, subject to conditions, from the old firm. In all such cases debit the remaining partner with the *net* value of all assets which he so takes, crediting the old assets. Where there is a difference on such taken over value to the book value, credit the asset with the difference where the taken over value is less than the book value, and debit the old firm's Profit and Loss Account. Conversely, should the taken over value be greater than the book value, which is unusual. So close off all the old assets. Credit the remaining partner with the *net* value of the liabilities which he takes, debiting all the old liabilities; differences, if any, to be treated as with the assets. So close off all the old liabilities. Result, the remaining partner's debit balance equals the outgoing one's credit. That figure will be the one which the latter person is entitled to have paid to him upon retirement. Here is a case in point. H. and Z. had been in partnership, sharing profits as to $\frac{4}{7}$ ths to H., and $\frac{3}{7}$ ths to Z. The Balance Sheet made out at date of dissolution was :—

	£	s	d		£	s	d
H., Capital Account ..	1,324	0	0	(1) Cash	89	0	0
Z., " ..	987	0	0	(2) Debtors	864	0	0
Creditors, Open Accounts ..	321	0	0	(3) Stock	642	0	0
" Expenses ..	10	0	0	(4) Goodwill	250	0	0
				(5) Furniture	120	0	0
				(6) Plant, &c.	400	0	0
				(7) Lease	277	0	0
	<u>£2,642</u>	<u>0</u>	<u>0</u>		<u>£2,642</u>	<u>0</u>	<u>0</u>

As to the assets, H., the remaining partner, agreed to take over (1), in full; (2), less 5 per cent.; (3), at £500; (4), nil; (5), at £80; (6), at £300; and (7), at £200. The expense creditors he would take in full, but those on open accounts he would allow the old firm an abatement of 2 per cent. upon. The two Capital Accounts and the Profit and Loss Account are now set forth, but it would be good practice to open all the necessary accounts, so that the various double entries may be clearly followed.

PROFIT AND LOSS ACCOUNT.

	£	s	d		£	s	d
To Reduction on Debtors ..	43	4	0	By Abatement on Creditors ..	6	8	4
" " Stock ..	142	0	0	" Transfer to H., Capital,			
" " Goodwill ..	250	0	0	½ths	369	0	5
" " Furniture ..	40	0	0	" Transfer to Z., Capital,			
" " Plant, &c. ..	100	0	0	½ths	276	15	3
" " Lease ..	77	0	0				
	<u>£652</u>	<u>4</u>	<u>0</u>		<u>£652</u>	<u>4</u>	<u>0</u>

Z.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Profit and Loss Account				By Balance	987	0	0
transfer	276	15	3				
" Balance down	710	4	9				
	<u>£987</u>	<u>0</u>	<u>0</u>		<u>£987</u>	<u>0</u>	<u>0</u>
				By Balance due	710	4	9

H.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Profit and Loss Account				By Balance	1,324	0	0
transfer	369	0	5	" Creditors	314	11	8
" Assets taken over—				" " Expenses	10	0	0
Cash	89	0	0	" Balance down	710	4	9
Debtors	820	16	0				
Stock	500	0	0				
Furniture	80	0	0				
Plant	300	0	0				
Lease	200	0	0				
	<u>£2,358</u>	<u>16</u>	<u>5</u>				
					<u>£2,538</u>	<u>16</u>	<u>5</u>
To Balance due to Z. ..	710	4	9				

Now, it is evident that H. must bring in such an amount of cash as will get rid of his debt to Z., or must make arrangements to pay him gradually. In opening the new books of H. all the assets must be reopened with their debits, and H. will be credited. Both the debtors and creditors should be opened gross, and Reserve Accounts shown for the allowances; all the others to be opened net. If, instead of the business being taken over by H., it had been *sold* to some other person or persons, then precisely the same rules must apply as to closing off the old books. In another case S. and M. had been in equal partnership for many years without keeping any accounts; all they could show at the date when S. proposes to take over the assets and liabilities was that their cash balance was £54. Their debtors appeared to be £563, and their stock and furniture £400. The creditors were assessed at £210; and S. agreed to take everything over at those figures. After working the accounts as above you will find that he owes M. £403 10s. upon his retirement. The two capitals must, in the first place, be taken as equal, as there is nothing to prove the contrary (section 24, 1). Another case is where R., S., and T. were in partnership, R. and S. each having taken two-fifths of the profits, and T. one-fifth. Their Balance Sheet at date of dissolution was:—

				£	s	d					£	s	d
R., Capital	..	..	..	2,310	0	0	Assets	..	..	..	5,700	0	0
S., "	..	..	..	2,300	0	0							
T., "	..	..	..	1,090	0	0							
				£5,700	0	0					£5,700	0	0

R. and S. agreed to take them over at £5,000, and to pay out T. the amount then due to him. That amount is £950—arrived at by opening a Profit and Loss Account and debiting it with £700, loss on the taken over values. Charge this proportionately to R., S., and T., and then debit R. and S. with equal amounts of £2,500, being their proportions of the taken over values. T. has now a credit of £950, and R. a debit of £470, and S. a debit of £480: together the amount due to T. £950. As a matter of fact, assuming that they each bring in *just such an amount of cash as will pay off these respective debts*, after doing so their new Balance Sheet will be—

				£	s	d					£	s	d
R., Capital Account	..	..	..	2,500	0	0	Assets	..	..	..	5,000	0	0
S., " " "	..	..	..	2,500	0	0							
				£5,000	0	0					£5,000	0	0

This will be seen by adding on to their capitals, after having followed previous rules, the exact further sums of cash brought in by them. It is quite possible to conceive that the outgoing partner may be found ultimately with a debit balance instead of a credit, then it would show that a sum represented by such debit was due by him to the firm he was quitting; just, in fact, as it would at any other time of the partnership.

C. and D. equal partners, had the following assets on their books: (1) Debtors, £1,806. (2) Stock, £3,067. (3) Furniture, &c., £195. (4) Lease, £1,439. (5) Goodwill, £500. They owed to creditors £1,234. The bills due by them, not included

in that figure, were £98. C.'s capital was £2,050, and D.'s £2,810. There was a Reserve Fund of £815. D. is retiring, and C. agrees to take over the assets thus—(1) £1,700. (2) £3,000. (3) £150. (4) £1,200. (5) £400; and the full liabilities. That is so settled; but it is agreed that as the Reserve Fund belongs to the old partnership that D. is entitled to his share of it. Close on that basis; C. *bringing in* just sufficient cash to pay off D.

C.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Sundry Assets, viz. :—				By Balance at Dissolution ..	2,050	0	0
Debtors	1,700	0	0	" Creditors	1,234	0	0
Stock	3,000	0	0	" " upon Acceptances ..	98	0	0
Furniture	150	0	0	" Profit and Loss Account ..	129	0	0
Lease	1,200	0	0	" Cash brought in	2,939	0	0
Goodwill	400	0	0				
	<u>£6,450</u>	<u>0</u>	<u>0</u>		<u>£6,450</u>	<u>0</u>	<u>0</u>

D.—CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Cash	2,939	0	0	By Balance at Dissolution ..	2,810	0	0
	<u>£2,939</u>	<u>0</u>	<u>0</u>	" Profit and Loss Account ..	129	0	0
					<u>£2,939</u>	<u>0</u>	<u>0</u>

PROFIT AND LOSS ACCOUNT.

	£	s	d		£	s	d
To Loss on Debtors ..	106	0	0	By Reserve Fund	815	0	0
" " Stock	67	0	0				
" " Furniture	45	0	0				
" " Lease	239	0	0				
" " Goodwill	100	0	0				
" Transfer C., Capital ..	129	0	0				
" " D., "	129	0	0				
	<u>£815</u>	<u>0</u>	<u>0</u>		<u>£815</u>	<u>0</u>	<u>0</u>

C. now admits E. as a one-third partner. E. to bring in furniture £100, and cash £2,000. C. to bring in the old firm's assets, at net value, and liabilities. Show new Balance Sheet on that basis.

C. & E. BALANCE SHEET.

	£	s	d		£	s	d
C., Capital	5,118	0	0	Cash	2,000	0	0
E., "	2,100	0	0	Debtors	1,700	0	0
Creditors	1,234	0	0	Stock	3,000	0	0
" upon Acceptances	93	0	0	Lease	1,200	0	0
				Furniture	250	0	0
				Goodwill	400	0	0
	<u>£8,550</u>	<u>0</u>	<u>0</u>		<u>£8,550</u>	<u>0</u>	<u>0</u>

(4) Dissolution by Death. The most usual plan here is to make out a Balance Sheet, and to ascertain what is the amount due to the deceased's estate, as shown by his Capital Account. But it is also necessary to point out that the surviving partner is, as a general rule, at liberty to refuse accepting all the values as standing in the books. For it may be well understood that during the deceased's life they were well maintained at those figures, but that his death makes all the difference to those values. In which case, the differences on such valuations must be charged to the old Profit and Loss Account before being closed. It is not unusual, and, in fact, is a matter for much commendation, to find the deed specifying how the values are to be assessed upon the death of either partner. But where the deed is silent, the surviving partner is at liberty to re-value; subject always that he is still bound by the arbitration clause, without which the deceased's representatives might find themselves very awkwardly situated. Apart, then, from these cases, which are now fully illustrated, I will take a case where K. and P. had been in partnership, with profits K. two-thirds, and P. one-third. K. died, and at his death the following Balance Sheet was made:—

	£	s	d		£	s	d
K., Capital Account	2,020	0	0	Cash	56	0	0
P., " "	2,198	0	0	Debtors	1,032	0	0
Creditors	135	0	0	Stock	1,542	0	0
				Plant, Machinery, &c... ..	1,723	0	0
	<u>£4,353</u>	<u>0</u>	<u>0</u>		<u>£4,353</u>	<u>0</u>	<u>0</u>

The deed arranged that the amount due to either partner's estate upon his death was to remain in the business, and be entitled to interest at the rate of 5 per cent., but to be repayable to his executors by equal amounts of £500 per annum (except as to any last instalment which might not amount to so large a sum; this was to be paid according to the amount which would be due, and no more). At the date of death a goodwill was to be put on the books of £1,200, and the deceased's share of the same was to be paid out of the future profits of the business, at the rate of one quarter of the *net* profits per annum, with interest added to the unpaid portion from year to year at the rate of 4 per cent. The subsequent profits of the business were—

1st year £720
2nd year £1,040
3rd year £1,430
4th year £1,578

From which Interest on the above matters *has yet to be deducted* before arriving at the amount payable annually for goodwill.

K.'s CAPITAL ACCOUNT.

	£	s	d		£	s	d
To Payment by Firm at end				By Amount Due at Death ..	2,020	0	0
first year	500	0	0	" Interest, first year ..	101	0	0
" Balance down	1,621	0	0				
	<u>£2,121</u>	0	0		<u>£2,121</u>	0	0
To Second Payment	500	0	0	By Balance "	1,621	0	0
" Balance down	1,202	1	0	" Interest, second year ..	81	1	0
	<u>£1,702</u>	1	0		<u>£1,702</u>	1	0
To Third Payment	500	0	0	By Balance	1,202	1	0
" Balance down	762	3	0	" Interest, third year ..	60	2	0
	<u>£1,262</u>	3	0		<u>£1,262</u>	3	0
To Fourth Payment	500	0	0	By Balance	762	3	0
" Balance down	300	5	2	" Interest, fourth year ..	38	2	2
	<u>£800</u>	5	2		<u>£800</u>	5	2
To Fifth Payment	315	5	5	By Balance	300	5	2
	<u>£315</u>	5	5	" Interest, fifth year ..	15	0	3
					<u>£315</u>	5	5

K.'s GOODWILL ACCOUNT.

	£	s	d		£	s	d
To First Payment by Firm	146	15	0	By Two-thirds Amount raised	800	0	0
" Balance down	685	5	0	" Interest, first year	32	0	0
	£832	0	0		£832	0	0
To Second Payment	232	17	8	By Balance	685	5	0
" Balance down	479	15	6	" Interest, second year	27	8	2
	£712	13	2		£712	13	2
To Third Payment	337	13	6	By Balance	479	15	6
" Balance down	161	5	10	" Interest, third year	19	3	10
	£498	19	4		£498	19	4
To Fourth Payment	167	14	10	By Balance	161	5	10
	£167	14	10	" Interest, fourth year	6	9	0
					£167	14	10

Portion of firm's Profit and Loss Account necessary to show above matters.

	£	s	d	
By Amount first year's profit	720	0	0	
Less two amounts of Interest	133	0	0	
	£587	0	0	quarter of same £146 15s.
By Amount second year's profit	1,040	0	0	
Less two amounts of Interest	108	9	2	
	£931	10	10	" " £232 17s. 8d.
By Amount third year's profit	1,430	0	0	
Less two amounts of Interest	79	5	10	
	£1,350	14	2	" " £337 13s. 6d.
*By Amount fourth year's profit	1,578	0	0	
Less two amounts of Interest	44	11	2	
	£1,533	8	10	" " £383 7s. 2d.

* The fourth year's one-quarter balance of net profit is more than sufficient to pay the remaining portion of goodwill.

I draw your attention to section 42 of the Act. Section 39 should also be read, as to certain rights of closing the partnership affairs upon a dissolution. It must be assumed that

both these sections would apply where a final settlement has not been made. The more usual course is naturally to close the accounts by agreed terms, as shown. These agreed terms vary, very naturally, in many directions, but no great difficulty should now be experienced, as although the method of setting out the accounts may have to be somewhat different to those I have shown, yet the principles remain for guidance.

The death clause in a deed should provide regulations for the outpayment of the deceased's share. Some of these are very simple in nature, such as "by three equal instalments at the end of six, twelve, and eighteen months from the death, with profits calculated to the end of the current month in which such death shall happen." Or, again, "within six calendar months from the date of such decease." More intricate cases would be, "at the date of death, a Balance Sheet shall be drawn, and the net value of the deceased partner's share in the partnership estate having been thus ascertained, the surviving partners shall, at their sole discretion retain in the business one-half of the value of such ascertained share, to be repaid as follows. (Here would follow directions as to the mode of repayment, extending, perhaps, over a course of years, with interest upon the unpaid portion from time to time.)"

It is usual to give the surviving partners the option of taking over the business, somewhat in these terms: "Provided that within two calendar months from such death, the survivors take upon themselves—in writing—all the liabilities of the partnership, and by covenant indemnify the executors, &c. . . . from all claims and demands. And if the survivors shall decline to take the assets and liabilities of the partnership the share of each partner in the partnership shall be ascertained, and each shall give to

the other such indemnities as may be necessary for carrying this article into effect.

It is in this death clause, and those following incidental to it, that we should look to see whether the survivors are to take the assets and liabilities at certain figures to be based, perhaps, on incidents of the partnership, or otherwise to be ascertained. If no such stipulations are mentioned, and provided always that the deed is otherwise silent on the subject, then, as I have said, the survivors are left very much with the matter in their hands to place their own valuations. This is distinctly unsatisfactory from the accountant's point of view, as he must then work upon information supplied without actual authority, for it must be remembered that although the survivors may state certain figures as those which are to be adopted, yet it does not always follow that they will be ultimately agreed to by the deceased's representatives. Where he sees such difficulty facing him, I think the certificate should cover the various matters of diminished values. It would be impossible to lay down a rule about such cases. One might be so different to another. But if the accountant is aware that he has drawn a Balance Sheet to be laid before a deceased partner's representatives, which has assets valued at lower figures than their book-values at the actual date of death, and he cannot but be aware of such fact—then, is it his duty to state it? I think it is, either by columns which will show both the book and reduced figures, or by other equally clear methods. It is clear, however, that the deceased should be represented by an accountant to look after his interests.

On 1st January 1905, W., X., Y., and Z. (equal partners) had capitals respectively £8,100, £7,680, £6,345, and £5,985, bearing interest at 5 per cent. Y. died on 27th November 1905, and by the deed he was entitled to share the year's net

profits proportionately to the date of death. At the end of 1905 the creditors stood at £345, the debtors at £1,479, stock £9,007, freehold £15,000, cash £2,034, plant, &c., £4,000, vans, &c., £411. The profit for 1905 was £3,476, before charging interest on capitals, and before reducing the plant and vans by 10 per cent. each, and writing 4 per cent. off the debtors. Also it is necessary to credit Y. with interest at 5 per cent. on his profits (but not on his one-fourth share of goodwill) from date of death to end of year as well as upon his capital for the whole year. At the end of that year a goodwill was to be raised equal to a sum of one and five-eighths of that year's net profits (*i.e.*, before charging Y.'s profits or interest on same).

PROFIT AND LOSS ACCOUNT.

	£	s	d		£	s	d
To Interest on Capitals—				By Profit as stated	3,476	0	0
W.	405	0	0				
X.	384	0	0				
Y.	317	5	0				
Z.	299	5	0				
" Depreciation of—							
Plant	400	0	0				
Vans	41	2	0				
" Reserve for Debtors	59	3	2				
" Net Profit	1,570	4	10				
	<u>£3,476</u>	<u>0</u>	<u>0</u>		<u>£3,476</u>	<u>0</u>	<u>0</u>
To Y.'s Share	356	0	0	By Net Profit	1,570	4	10
" Interest on same	1	13	0				
" W.'s Share	404	3	11				
X.'s "	404	4	0				
Z.'s "	404	3	11				
	<u>£1,570</u>	<u>4</u>	<u>10</u>		<u>£1,570</u>	<u>4</u>	<u>10</u>

BALANCE SHEET.

	£	s	d		£	s	d
W., Capital	9,547	2	1	Cash	2,034	0	0
X., "	9,106	2	2	Debtors, Trade	1,419	16	10
Z., "	7,326	7	1	Stock	9,007	0	0
Y.'s Executors	7,657	16	2	Freehold	15,000	0	0
Creditors, Trade	345	0	0	Plant	3,600	0	0
				Vans	369	18	0
				Goodwill	2,551	12	8
	<u>£33,982</u>	<u>7</u>	<u>6</u>		<u>£33,982</u>	<u>7</u>	<u>6</u>

EXPLANATORY.

A "rest" in a partnership would mean that some particular account or accounts were to be closed at the date of the rest for the purpose of adjustment. Where such an account was one bearing interest, it would imply that compound interest was to be calculated from the date of such rest to the next rest. Thus A., a partner in a firm, lent the firm money interested at the rate of 5 per cent., with half-yearly rests upon that account. Compound interest every half-year is implied. Quarterly rests are unusual, but where there is an agreement to allow them they must be adjusted in a similar way, but with compound interest quarterly upon the principal, less, perhaps, any withdrawals from time to time.

A "moiety" would imply a half of some share. Thus, where A. and B. are to share profits in moieties, they are equal partners; or where C. is to take three-fourths of the whole profits, and D. and E. the remainder in moieties, then D. and E. are equal partners as between themselves for the remaining one-quarter share. Where F., G., and H. were equal partners in a business they did not share in moieties—not strictly so at least, but it would be assumed that, if the deed stated they were all to share in moieties the profits, they were equal partners.

A "salary" of a partner is chargeable against the Profit and Loss Account.

"Drawings" of a partner are to be charged to his account direct.

An "appropriation" of the profits is a term properly applicable when the division takes place from the debit of the Profit and Loss Account to the credit of the Partners' Accounts.

A "co-partnership" is one governed in the proper way by deed or Act—that is to say, a verbal or other partnership which has all the essential parts of a partnership governed by law may be termed a "co-partnership."

It requires two or more persons to form a partnership. One person carrying on a business for his sole benefit and use cannot be said to be in partnership with himself.

An "average date" would be a term used in connection with the realising of specific matters relating to a partnership. It is not uncommon to find it used upon the death or retirement of a partner, where his share is to be paid out as and when the assets forming his share are realised. Thus, with regard to the debtors of the firm, the stock, and consignments, they cannot all be collected at one date, nor sold at one time. Therefore it is that the share to be paid out would only become due, or be entitled to interest, where this term is used in the partnership, from the average date of collection and sale.

The "capital" of a partner in a firm can only be ascertained at any date by an exact adjustment of all accounts, and after proper charges and depreciations on all matters have been duly charged against him, according to his proportion of the same.

It has been said that the "Statute of Limitations" does not apply in a partnership settlement, but this is not correct. See 19 & 20 Vict. c. 97 (9).

"Interest" on a partner's share of capital may be either compound or simple. But the capital does not necessarily bear interest. No one section in the Act *authorises* it, except at times of a dissolution (see section 42 of the Partnership Act). It is, therefore, for the deed to state the rate, if any,

to be given ; or, if silent, an agreement must be entered into by *all* the partners, or it will not be binding (see section 19 and section 24 (8)). In any case, not more than 5 per cent. per annum should be allowed ; but it is open for the partners to arrange a higher rate. On this subject the Act of 17 & 18 Vict. c. 90 is of great interest generally. Also see Partnership Act, section 2 (3*d*), and section 24 (3). This latter being *subject* to agreement.

“ Partnership at will.” (See sections of the Act 26 and 27.)

“ Firm ” and “ Firm-name.” (See section 4.)

“ Partnership property.” (See sections 20, 21, and 22.)

“ Accounts.” (See sections 28 and 29.)

“ Competition by a partner.” (See section 30.)

“ Assigning a share.” (See section 31.)

Those sections only are referred to which might affect at all the drawing of the accounts, apart from those already fully dealt with.

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